HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Thunder Bay CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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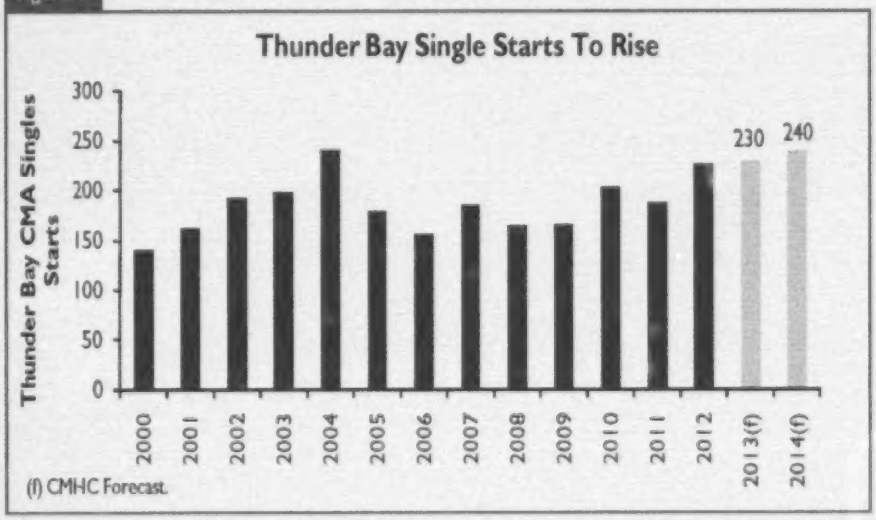
Market at a Glance

- Seller's market conditions prevail in Thunder Bay despite an expected 4.8 per cent decline in sales in 2013. Average resale prices will rise 6.4 this year in Thunder Bay and another four per cent next year.
- The tight resale market will drive single-detached housing starts up 1.3 per cent in 2013 and another 4.3 per cent next year. Total housing starts will remain comparable to 2012 this year and increase a further eight per cent in 2014.
- Mining related activity, a recovering dimensional lumber sector and an expanding knowledge sector work force all work to improve employment numbers.

Figure 1



The forecasts included in this document are based on information available as of April 26, 2013.

Table of Contents

1 Market at a Glance

2 Resale Market

2 New Home Market

3 Economic Outlook

3 Mortgage Rate Outlook

5 Forecast Summary

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Resale Market

Demand outstripping supply continues

After an unusually long winter, strengthening employment numbers and growing earnings will combine to advance both the resale and new home market in Thunder Bay this year and next. Prolonged listings shortages show no sign of easing and represent the key variable explaining the continuation of seller's market conditions locally. Faltering sales have more to do with lack of product than weakening demand.

After trending down for four consecutive years, sales will fall further in 2013 by 4.8 per cent before recovering only slightly in 2014. Sales for the first four months of 2013 have been especially slow given the long winter but we can expect brisk activity entering the summer and carrying on into the fall. Empty nesters and some first time homebuyers will look to some higher density ownership options that will come on the market this year.

While new listings have dipped slightly, active listings, as of April 30th, are slightly higher than last year at this time undoubtedly due to the unusually long winter. Baby boomers make up a large segment of Thunder Bay's population. With this population living longer and being wealthier on average, they are increasingly likely to stay in their principal home longer forgoing any move to downsize. As a result, listings in the region continue to be tight.

Scarce resale product will constrain 2013 listings further. Although it is unclear whether the trend towards growth in active listings will be sustained, new condominium projects under construction do have the potential to encourage more listings in the resale market.

Home prices should heat up as the prime selling season progresses. Prices, having risen a record 15.1 per cent in 2012, will rise briskly again in Thunder Bay. Given sustained demand and short supply, CMHC expects prices to rise 6.4 per cent this year and 4.1 per cent next year.

New Home Market

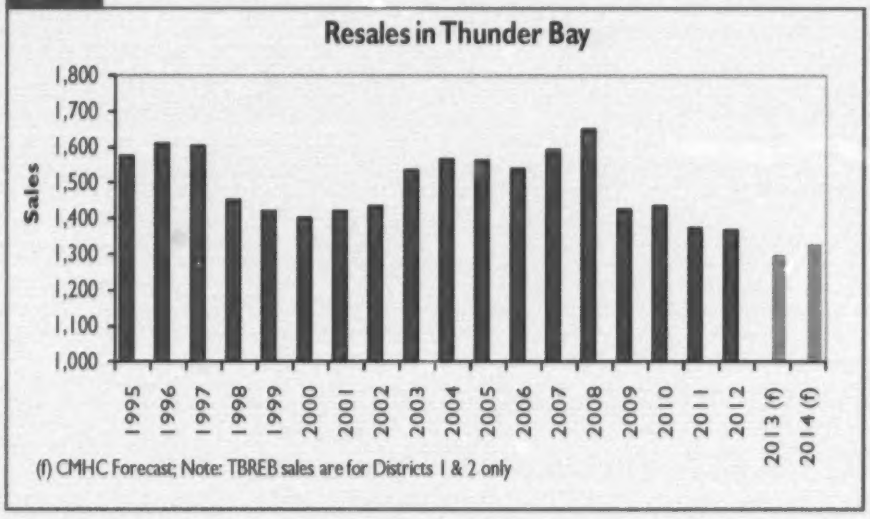
Single-detached starts to rise slightly

Activity so far this year has been slow primarily due to weather; however, permits indicate housing starts will commence in earnest. Last year single-detached starts reached the second highest level in the last 18 years. The 227 units were only 14 units short of the 241 counted in 2004. Watch for singles starts to rise again this year by 1.3 per cent and a further 4.3 per cent in 2014.

Starts of apartment condominium units dominated new multiple-housing starts in 2012. The majority of condominium apartments started in the fourth quarter, bringing total multi-family construction to 153 units on the year, well above the 30-year average for this type of starts. CMHC expects another significant project to commence this year and phase two of the same project to start next year. As these projects approach completion, listings on the local resale market stand to improve.

The average price of completed and occupied new units in 2012 topped $355,000, up 9.5 per cent from a year earlier. With escalating lot price and materials costs, new home prices for 2013 are expected to rise five per cent this year and a further three per cent next year.

Figure 2



Economic Outlook

Employment situation experiencing mixed signals

Employment levels have been slow to show signs of strengthening so far this year, given the less than robust mining commodity price environment globally. Gold and most metals are experiencing weaker prices thus far, in response to deceleration in growth in resource-dependent emerging market economies.

Contrasting the world of metals is forest products, specifically building products such as dimensional lumber, plywood and oriented strand board. These forest products have been doing well for over a year now, thanks in large part to a recovering US construction market. Unfortunately, the ability of former Northwestern Ontario producers to ramp up and resume production is limited given either loss of cutting rights or infrastructure dismantling or both. Once again, CMHC expects employment will continue to grow 1.6 per cent this year and 1.8 per cent in 2014.

The Goods- Producing sector of the local economy has been trending up, as has the services-producing sector. CMHC expects both sectors to improve, given the positive developments especially in the mining sector in Northwestern Ontario. Also of note, is improving full-time job counts versus part-time. The labour force survey results have revealed this upward full-time job trend for the last three years after a seven year down trend.

This trend to more full-time jobs coupled with the increased activity in mining exploration, supply and services (especially professional and technical services), may explain surging Thunder Bay average weekly earnings growth. To April 30th, average weekly earnings are up 8.9 per cent year-over-year bringing Thunder Bay earnings to a level on par with Ontario average weekly earnings, which has not occurred in at least 15 years.

Figure 3

to April 2013, Forecast 2013 and 2014.
Source: Statistics Canada Labour Force Survey

Expect Thunder Bay earnings to grow 3.0 per cent this year and another 3.2 per cent in 2014. Earnings growth is important given the seller's market conditions found in Thunder Bay. As prices continue to escalate well beyond inflation, advancing incomes will provide more households with the ability to afford Thunder Bay homes.

Migration into Thunder Bay will depend on mining readiness

Northwestern Ontario's ability to comply with infrastructure preparation, mine construction and mine life, will determine the impact that roughly ten mining operations could have in the region. Responding to the mining readiness challenges to obtain the most impact for this region will be determined by how well the local and regional establishment deal with attracting skilled workers to the area or training the existing labour force to provide manpower so critical to realizing the vast potential.

The ability of Thunder Bay to respond to housing demand that results from mine development will dictate the percentage of mine families that would locate in Thunder Bay versus remaining in their current communities and commuting to work from afar. Expect migration to follow an improving trend for the forecast horizon.

Mortgage Rate Outlook

Mortgage rates to see modest and gradual increases, but will remain low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank

of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Forecast Summary Thunder Bay CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
Resale Market							
MLS® Sales	1,434	1,373	1,366	1,300	-4.8	1,330	2.3
MLS® New Listings	1,831	1,677	1,631	1,600	-1.9	1,620	1.3
MLS® Average Price ($)	155,060	168,672	194,123	206,500	6.4	215,000	4.1
New Home Market							
Starts:							
Single-Detached	204	188	227	230	1.3	240	4.3
Multiples	18	186	153	140	-8.5	160	14.3
Semi-Detached	10	8	6	20	**	20	0.0
Row/Townhouse	4	12	17	30	76.5	40	33.3
Apartments	4	166	130	90	-30.8	100	11.1
Starts - Total	222	374	380	370	-2.6	400	8.1
Average Price ($):							
Single-Detached	319,582	324,604	355,385	373,154	5.0	384,349	3.0
Median Price ($):							
Single-Detached	309,900	312,000	329,900	344,746	4.5	353,364	2.5
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	-0.5	0.1	1.3	1.5	-	1.6	-
Rental Market							
October Vacancy Rate (%)	2.2	1.7	1.1	0.9	-0.2	0.7	-0.2
Two-bedroom Average Rent (October) ($)	763	772	818	842	2.9	875	3.9
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	59,800	59,500	61,000	62,000	1.6	63,100	1.8
Employment Growth (%)	0.3	-0.5	2.5		1.6		1.8
Unemployment rate (%)	6.6	6.9	5.4	5.1	-	5.0	-
Net Migration	441	229	400	450	13	500	11

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2012 migration data is a forecast.

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